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Good **Primer on Investment Strategy and Implementation**, October 20, 2005

Reviewer: **Dale C. Maley "Index Fund Investor"** (Fairbury, IL United States) - See all my reviews

REAL NAME™

As an introductory text on financial planning, I give it a B.

I got my first taste of financial planning back in 1979 when I attended an adult education class in financial planning. It was taught by an Edward D. Jones financial planner and he used Venita's book The New Money Dynamics as the course text book. This first edition was updated several times including Money Dynamics for the 1990's.

This adult education course got me interested in financial planning and it has been my hobby for the last 26 years.

Some key concepts I first learned about with this book including "own versus loan" to become wealthy. Successful investors increased their net worth by owning assets, not loaning out their money.

Another key concept was the power of compound interest. Venita's concept of your investment creating children (interest) who beget another generation of children still sticks in my mind 26 years after first hearing the concept.

Her book was also the first time I really saw insurance analyzed from the perspective of an investor. I learned the advantages of term life insurance versus whole life.

This book is also where I first learned about mutual funds and their advantages. She also does an excellent job of explaining the ravages of inflation to your investments.

The only negative thing in her book was limited partnerships. Venita got her start in the 1970's as a financial planner and grew up in the age of tax-advantaged limited partnerships. After taking the adult-ed class, I invested small amounts in 2 limited partnerships. When Congress wiped out the tax advantages of limited partnerships in 1986 and the price of oil fell, the value of existing limited partnerships was wiped out. I escaped with relatively small losses on my 2 limited partnerships, but never again will I touch relatively non-liquid investments whose value can be wiped out with 1 tax law change.

Venita got herself in some hot water in the 1980's, primarily due to investors who lost their money in limited partnerships she recommended. See the June 25, 1990, edition of Forbes magazine pages 252-254 for details of her woes.

As hard and complicated as Wall Street tries to make investing..... to make you think you need a broker or active mutual fund manager, the steps for successful investing are very

basic. Venita's book does hit some of the basic steps correctly.

#1 is to live below your means so you can save at least 10% of your gross each year and invest it. This sounds easy, but it apparently is not since the average U.S. household credit card debt is now around $8,000 saving rates are below 1%, and average household net worth is below $100K. The book should have mentioned the classic book The Richest Man in Babylon with regards to the merits of living below your means so you have money to invest. Venita doesn't recommend a specific percentage of gross income to save but does recommend saving and investing.

#2 is to use automatic investment so you pay yourself first. If you set up an automatic way of investing, then you can't spend money you don't see. After all, the U.S. government adopted automatic payroll deduction to pay income taxes right after WWII because it was concerned people would not save to pay their tax bill. The government using automatic payroll deduction to assure they always get their share of your money, so why not use this method to keep some of your money for yourself? If you use automatic investment, you get the advantages of dollar cost averaging as well. Venita mentions saving automatically in her book.

#3 is to invest your savings in stocks and use low cost index funds for your investments. Venita recommends stock mutual funds as one good method of investing your savings. She does not mention stock Index funds in her book. She also does not mention that generally speaking stock brokers are not your friends. Often their objective is to move your money into their hands per the classic book Where Are The Customer's Yachts?

#4 is to focus on asset allocation, not which stocks or mutual funds to pick. This book recommends diversification of assets, but does not really address more modern asset allocation strategies. Gary Brinson's seminal study "Determinants of Portfolio Performance" on asset allocation was not published until 1986 in the Financial Analysts Journal. His study indicated that over 90% of the variation in a portfolio return is due to the mix of stocks and bonds in the portfolio. Deciding what stocks to put in a portfolio only explained about 5% of the variation in total portfolio returns.

Another more recent development not mentioned in Venita's book is use of a yardstick measurement of how well one saves and invests. The Millionaire Next Door published a yardstick which says your expected net worth is 1/10 of your age times your income. This gives you a frame of reference to how well you have saved and invested.

All-in-all, Venita's books are still good primers on successful investing strategies. She does a better job of explaining several key investment concepts than any other author I have read (inflation, insurance, own versus loan, power of compound interest, mutual funds). Just ignore the sections on limited partnerships.

I would suggest companion books to supplement this book including The Richest Man in Babylon, Bogle on Mutual Funds, The Millionaire Next Door, The 4 Pillars of Investing, A Random Walk Down Wall Street, Wealth of Experience: Real Investors on what

Works and What Doesn't, Index Mutual Funds: How to Simplify Your Life and Beat the Pros, The Coffeehouse Investor, and the Armchair Millionaire.

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